



## **From Liberalism to Neoliberalism**

**Gavin Kendall**

**Centre for Social Change Research  
School of Humanities and Human Services**

**Queensland University of Technology**

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## Abstract

We must understand neoliberalism as a distinct form of government with political, economic and cultural components. In this paper, neoliberalism is defined in terms of the work of the *Ordoliberalen* and of the Chicago School. It is suggested that a definition of neoliberalism must dwell less the prioritisation of the market and the definition of all human activity in terms of economic criteria; it is more important to consider the degree of naturalness or artificiality of society, and the role of government in the generation and protection of society. It is suggested that as an economic practice, neoliberalism is not especially innovative, yet as a political practice, it is extremely inventive.

## Introductory Remarks

The main task of this paper is to identify some prime features of neoliberalism, a rather hackneyed and imprecise term in sociology and in many other cognate disciplines. Accordingly, we proceed as follows. First of all, we define liberalism, and begin to distinguish it as a discrete political practice. Second, we move on to a discussion of neo-liberalism, with an emphasis on its discontinuities with liberalism. To better understand neoliberalism and to appreciate its political inventiveness, we dwell on two key sources of neoliberal thought – the *Ordoliberalen* and the Chicago School. Hayek is discussed in terms of his finessing of neoliberal thought. A new understanding of the market and a concurrent new understanding of the rational actor emerge from these scholars.

To begin our definitional task, if we think in terms of historical periodization, we may say that after the Second World War, liberalism took a new turn. This had two major temporal phases. The first phase is sometimes described as ‘welfarism’ (see, for example, Rose, 1993), in which many advanced liberal democracies followed what might be termed a ‘Keynesian’ path, engaging in a variety of social insurance measures while following a ‘mixed economy’ strategy. We need to distinguish the various levels of welfare support offered throughout the world. In Europe, for example, Giddens (1998: 6-7) makes a useful distinction between the UK model, which emphasized social services and health; the Scandinavian model, which provided higher benefits from a higher tax base; the middle European models, which had a low commitment to social services, but well-funded benefits in other areas; and the southern European systems, which were similar to the middle European, but less

comprehensive and with lower levels of support. The second phase emerged roughly in the 1970s, and is characterized by ‘economic rationalism’, the disposal of publicly owned national industries to the private sector (‘privatization’), the rolling back of the welfare state, the introduction of market-style competition into a range of arenas previously uncontaminated by such an ethos, and enforced state-sponsored inspection of zones such as education and health (which had previously been granted a greater degree of professional autonomy). This second phase is what we term ‘neoliberalism’; however, we should be aware that is common in the literature to distinguish these forms of liberalism by ‘sphere’, such as ‘economic neoliberalism’, ‘social neoliberalism’, ‘political neoliberalism’, and so forth.

We can also make a second type of definition in terms of the relationship different forms of liberalism have to the character of society. Burchell (1996) has usefully described this turn as away from classical liberalism’s conceptualization of society as ‘natural’ (Adam Smith, in this context, spoke of the ‘natural system of liberty’), towards the neoliberal understanding of the social sphere as one that needs to be actively constructed by government. The *locus classicus* is Hayek (1979), who describes society as an ‘artefact’. In classical liberalism, civil society can be seen as a kind of resource for the invigoration of the state; consequently, the themes of the separation of state and civil society and the importance of a *laissez-faire* approach to economy and civil society are enormously important in eighteenth- and early-nineteenth-century liberal political philosophy. The discovery of ‘population’ and ‘the social’ is a fundamental moment in the birth of liberalism, but we need to stress that the social under classical liberalism is seen as spontaneous or naturally self-

reproducing. There is a long and continuing history to this idea of the naturalness of social relations. A crucial early resource in political philosophy is Hobbes, who distinguishes a natural (although brutish) civil society that the state can and must regulate. The young Marx, of course, generated a new morally-charged version of this idea in arguing that a virtuous natural civil society was endangered by a parasitic, artificial state. More recently, Habermas (1987) has distinguished between system and lifeworld, the latter being the natural site of everyday relations. Further, Habermas suggests that we need to protect the natural virtues of the lifeworld, which are in danger of being strangled by the bureaucratic, artificial system. It is worth remarking that in this regard – in its recharacterization of what is natural and what is constructed - neoliberalism is remarkably innovative: it is rarely given appropriate credit for its political inventiveness.

The neoliberal turn understands government as the active constitution of the conditions under which civil society might flourish. The conditions include both the introduction of market forces and the attachment of performance targets in social areas such health, education, and so forth, and the associated requirements that individuals take responsibility for their own lives (rather than becoming dependent on state distribution). Interestingly, this emphasis on the need to constitute society artificially can potentially lead to the idea, most famously enunciated by Margaret Thatcher (1987; 1993: 620), that there is no such thing as society. Of course, what Thatcher meant was that there should be no such thing as a dependent, ‘welfare’ society. She did not resile from the governmental invention and imposition of frameworks that

would allow individuals and families to constitute the most auspicious social conditions for themselves.

To a certain extent the philosophical differences between liberalism and neoliberalism are slight: it is certainly the case that all the elements of neoliberalism are contained within liberalism – responsibility, self-government, private rather than public ownership, an essentialization of the market, the attention to practices of freedom of the individual, and so forth. It might be accurate to say that it has only been because of socialist and social-democratic versions of liberalism that such notions as ‘the welfare state’ became embedded in liberal politics at all (certainly the *Ordoliberalen* regarded macroeconomic Keynesianism as illiberal, to the extent that it failed to understand market pricing mechanisms and intervened in fiscal and monetary matters to the detriment of society). Neoliberalism, then, at one level, is an emphasis on certain well-established liberal themes. However, as a political practice, neoliberalism is distinctive: in the neoliberal political landscape of the 1970s and 1980s, especially in the policy directions of the Reagan and the Thatcher administrations in the US and the UK respectively, but also in Australia and New Zealand, there were stringent attempts to remove the ‘nanny’ state, to put an end to a perceived culture of welfare dependence, and to reinvigorate the nation by giving free rein to individuals’ own entrepreneurial proclivities. While there is an element of reducing the state, what is fundamental to these efforts is that a more authoritative state must now concentrate on providing the conditions under which individual entrepreneurship, self-government, freedom and responsibility can be possible.

In terms of trying to define the differences between liberalism and neoliberalism, then, we have seen that liberalism, as a doctrine of permanent self-critique, is always likely to generate new governmental rationalities. However, in common parlance, the term neoliberalism is most closely associated with the models of the last thirty years, which focus on a new and reduced role for government as a ‘condition provider’, and argue that government must take a back seat to market forces. In these models, we see the old paradox of liberalism, in that it has an overt philosophy of social non-intervention, yet it cannot bear to leave civil society alone. Indeed, despite philosophies of ‘deregulation’, considerable state intervention and reregulation has occurred, not least in the UK (Moran, 2003).

### The *Ordoliberalen* and the Chicago School

The German *Ordoliberalen* (so-called because of their association with the journal *Ordo*) generated a series of novel propositions that proved vital in the regeneration of liberalism. These thinkers, mostly jurists and economists, were working from the 1920s in Germany, but were mostly in exile under Hitler’s rule. Returning to Germany at the end of the War, they played a major part in the rebuilding of West Germany. In essence, they suggested that a variety of failures of liberalism – including the Depression and the Third Reich – were a result of the lack of the appropriate cultural, legal and social frameworks that would guarantee the correct working of the market. The *Ordoliberalen* were far removed from Adam Smith’s natural system of liberty: for them, the market was understood as an artificial game of competitive liberty. This game was not to be guaranteed by market intervention, but by intervention into the vital conditions for the market-game: the rule of law, the

surrounding culture, the institutional frameworks, and so forth. While they saw an analogy between the necessary competitiveness of the market and of social and cultural life (the latter should emulate the former), they nonetheless advocated policies of social assistance. As Gordon (1991: 42) summarizes, ‘the major problem of social politics... is not the anti-social effects of the economic market, but the anti-competitive effects of society’. Juridical and institutional interventionism was the order (pun intended) of the day, an interventionism that, it was hoped, would suffuse society with the appropriate competitive spirit: this, Rüstow (1980) calls *Vitalpolitik*.

He [sc. Rüstow] proposes that the whole ensemble of individual life be structured as the pursuit of a range of different enterprises: a person’s relation to his or her self, his or her professional activity, family, personal property, environment, etc., are all to be given the ethos and structure of the enterprise-form. This ‘vital policy’ will foster a process of ‘creation of ethical and cultural values’ within society (Gordon 1991: 42).

This emerging philosophy has many of the elements of what we now recognize as neoliberalism. To the modern sensibility, it is perhaps jarring to see a mixture of market-led policies and social insurance: but this should serve to remind us that ‘purer’ forms of neoliberalism have never quite purged themselves of social government, and that there is a direct line of descent between the *Ordoliberalen* and the ‘There is no alternative’ (TINA) neoliberalism of Margaret Thatcher and Keith Joseph, and the rest.



The Chicago School theorists, the most prominent of whom was Gary C. Becker (see, for example, Becker, 1964; 1976), took a more radical approach to the relationship of the market and the social. While the *Ordoliberalen* aimed to govern the social to preserve and strengthen the economic, the Chicago neoliberals, who established a number of strong links with their German colleagues, proposed that the social become a form of the economic. While the *Ordoliberalen* regarded the market as a rather fragile entity, for the Chicago economists, by contrast, the market was so robust that its rationality could be extended to the social – including crime, family life, work life, and so forth. The Chicago economists' work can be seen as a reaction to the 'overgovernment' of the New Deal and the US wartime economy, but it was also profoundly influenced by the behaviourism that was in vogue in the US in the social sciences of the 1950s and 1960s. The starting point for their radical reconceptualization of the social lay in the idea that all rational behaviour is about deciding which resources are best devoted to which ends. Once all rational human behaviour has been understood as economic behaviour, then, government becomes nothing more or less than economic government.

The rational economic actor's choice is his/her defining characteristic, allowing *homo economicus* to supplant the theorizations of 'man' that had been developed in anthropology, sociology, psychology, criminology, and so on. As Gordon (1991: 43) makes clear, this is a reactivation of the Scottish Enlightenment's economic agent; yet it is also a rewriting of what Adam Smith and his like-minded theorists had in mind, since the behaviourist element in the Chicago characterisation allows *homo*

*economicus* to be manipulable – ‘perpetually responsive to modifications in his environment’ (ibid.). In addition, Becker and his colleagues construct the notion of entrepreneurship as a model for the permanent project of self-development, a notion which is crucial for later neoliberalism. The Chicago School suggested that the individual needed to conceptualize his or her skills and aptitudes in the language of the market, as human capital, which can be put to work to earn revenue (wages). A skill or aptitude is a ‘quasi-machine for the production of a value’ (Gordon 1991: 44), while activities such as education come to be understood as investment in the (long-term project of the) self. Life, for the Chicago School, is an enterprise.

This latter notion has clearly been vital in contemporary neoliberal politics, as the emphasis has shifted away from Keynesian safety-net provision to individual responsibility for one’s own life projects. For example, in governmental interventions into education, we have seen the stimulation of ‘lifelong learning’ (it is no longer acceptable to imagine one is finished with education). Meanwhile, in health provision, the move towards private health cover has been associated with an educative function that stresses self-management and preventative health practices. Even at the level of popular culture, as any frequenter of airport bookshops will attest, the notions of self-help and self-development have made fortunes for a huge number of lifestyle gurus who have outlined the magnificent possibilities for the individual who ‘takes control’ (and, once again, it seems impossible – or culturally idiosyncratic - to argue that one does not want to be developed).

For neoliberals, this notion of life as a project solves the problem of the possible descent of economic man into selfishness, greed, and acquisition for its own sake; a solution just as neat as the one Weber identified for his proto-capitalist protestants. As Gordon argues, this right to permanent retraining has become enshrined in neoliberal inspired legislation, but has usually been played out via a

technical content [which] has relied heavily on the contributions of the ‘new psychological culture’, that cornucopia of techniques of the self which symbiotize aptitude with self-awareness and performance with self-realization (not to mention self-presentation). What some cultural critics diagnose as the triumph of auto-consuming narcissism can perhaps be more adequately understood as a part of the managerialization of personal identity and personal relations which accompanies the capitalization of the meaning of life (Gordon 1991: 44).

We have dwelt a while on these early moves in neoliberalism, since they enunciate some of the fundamentals of its later ethos and practice. First, they establish the artificiality of the social; second, they understand the market as the source of liberty, and a true description (in the case of the Chicago School) of other areas of life, especially the social; third, they stress the importance of the manipulation of the frameworks (*Ordoliberalen*) or the stimuli (Chicago School) that surround the market; finally, they construct a new notion of self, in which actors can be seen as fundamentally economic, while their aptitudes and skills can be understood as human

capital. As for the state: it has moved from being ‘social’ to being ‘enabling’ (Rose 1999: 142).

### Hayek

In his 1944 book, The Road to Serfdom, Friedrich von Hayek launched his highly influential critique of state intervention. Nazi Germany and the Stalinist Soviet Union were pilloried as examples of whither excessive state control could lead. In addition, however, other somewhat milder versions of liberal interventionism – especially Keynesianism – were attacked. Hayek’s notion of freedom is important here: it is somewhat different to that presented in the works of the *Ordoliberalen*, in that freedom is an artefact of civilization. Within Hayek’s framework, there are three ‘levels’, nature, culture and reason, and it is within the second of these that freedom is to be found. The three levels are built upon each other, and concern the realm of instincts, the realm of civilization that tamed nature, and the world of abstract rules such as the law. In this conceptualization, civilization is a precondition for reason, and, as we have seen, for freedom. Freedom for Hayek is a matter of the submission of the individual to discipline, and to this extent he echoes Hobbes. As Dean (1999: 157) points out, Hayek’s negative (freedom is freedom from the will of others) and anti-naturalist position on freedom brings him into conflict with his *Ordoliberalen* compatriots and their ‘constructivist’ approach to the origins of freedom. Hayek (1976: 17) suggests that this erroneous approach has its beginnings in utilitarianism. Finally, freedom has a role to play in the future of civilization: although it is a product of civilization, freedom is at the same time the condition of civilization’s evolution. In stressing this role for freedom, Hayek is keen to downplay the possibility that any kind

of cultural evolution is possible through central (governmental) planning. This critique promotes the possibilities of freedom in an individualistic culture as against the proven failures of Soviet command economies and Nazi authoritarianism.

As for the market, again Hayek is subtly different from other neoliberal theorists. The market is not understood as a natural phenomenon, but nor is it the result of a contrived governmental policy. It is rather something like a ‘spontaneous social order’ (Dean 1999: 157), arrived at through the rules of conduct established in cultural evolution. While there may be a need for a conditioning of the market’s social and political framework, the market itself is ‘culture’ rather than ‘reason’, and thus is not sensibly regulated at the level of government.

## Conclusion

To understand neoliberalism, it is necessary to understand how the economic doctrines of the *Ordoliberalen* and the Chicago School allowed the development of a political and cultural neoliberalism. It is also necessary to come to terms with how Hayek’s work on culture provided neoliberalism with a rich but extremely practical approach to the recalculation and reprogramming of government. A more precise understanding of the conditions of emergence and the logic of neoliberalism will enable us to better understand its operation today, and it is hoped that this paper has made a small contribution in that direction.

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